



OFFICE OF AUDITOR OF STATE
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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE October 14, 2005

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the Iowa Legislature for the year ended June 30, 2004. The Iowa Legislature includes the following components: House of Representatives, Senate, Legislative Services Agency and Office of Citizens' Aide/Ombudsman.

Vaudt recommended the House of Representatives and Senate segregate payroll and personnel duties to the extent possible. In addition, Vaudt recommended the Legislative Services Agency ensure information reported on the GAAP package is accurate and complete. Legislative responses are included in this report.

A copy of the report is available for review in the Iowa Legislature or the Office of Auditor of State.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA LEGISLATURE**

JUNE 30, 2004

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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October 11, 2005


To the Members and Officials of the Iowa Legislature:


The Iowa Legislature is a part of the State of Iowa and, as such, has been included in our audit of the State's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004.

In conducting our audit, we became aware of certain aspects concerning the Iowa Legislature's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations which include those pertaining to the Iowa Legislature's internal control, compliance with statutory requirements and other matters. These recommendations have been discussed with Iowa Legislature personnel and their responses to these recommendations are included in this report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Legislature, citizens of the State of Iowa and other parties to whom the Iowa Legislature may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Legislature during the course of our audit. Should you have questions concerning the above matters, we shall be pleased to discuss it with you at your convenience. Individuals who participated in our audit of the Iowa Legislature are listed on page 7 and they are available to discuss these matters with you.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Thomas J. Vilsack, Governor
Michael L. Tramontina, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2004

Finding Related to Internal Control:

- (1) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees so the activities of one employee act as a check on those of another.

Two employees within the House of Representatives and Joint House and Senate Finance Office and two employees within the Senate have the ability to perform the following payroll and personnel functions for which no compensating control exists:

- (a) Entering and approving time records on the payroll system (PAYN).
- (b) Comparing time records to payroll information.
- (c) Receiving and distributing payroll warrants.
- (d) Preparing P-1 documents that initiate and approve personnel actions such as adding new employees and recording pay raises.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Legislature should review its operating procedures to obtain the maximum internal control possible under the circumstances.

House Response – Legislative Administration has established and authorized decades of the current employee organization which has successfully warranted the ability to function when employee absenteeism occurs, affordable employees' budget while maintaining confidentiality and compensating control. Segregated duties would conflict with internal control for accurate payroll results.

House of Representatives require review and authorization by the Speaker and Chief Clerk. Joint House and Senate require review by the Speaker, Chief Clerk, Senate President, Senate Democrat Leader, Senate Republican Leader and the Secretary of the Senate. As a review procedure, the Chief Clerk currently initials all payroll journal pages. The House of Representatives and Joint House and Senate Finance Offices operate on a support team basis to achieve audit recommendations with minimum errors.

With regard to items (a) and (d), per Administration directive, the Senior Finance Officer informatively directs the Personnel Assistant (PA) to enter and approve P-1 documents. When work load is heavy or in the absence of the PA, the Senior Finance Officer inputs and approves P-1 documents.

For item (b), the first payroll final report is proofread to the time records and P-1 input documents acting as the step of department approval.

With regard to item (c), during the interim, we alternate receiving warrants with the Senate. During the session, pages receive the warrants, deliver to the Finance Office where they are immediately locked up. During session, PA and session-only employees prepares warrants for distribution. Senior Finance Officer and PA alternated the distribution of warrants during the 2005 Session.

Senate Response – The Senate has implemented the practice of one person entering the electronic approvals and the other person reviews the payroll journal before the warrants are cut. Depending on schedules, the same person is not picking up the warrants as the person distributing the warrants. During session, the sergeant of arms assists in the distribution of checks to some of the session-only employees.

Report of Recommendations to the Iowa Legislature

June 30, 2004

Conclusion – Response acknowledged. Where duties cannot be adequately segregated, it is important this work be reviewed by supervisory personnel and this review be evidenced by the initials of the reviewer. Also, at a minimum, receipt and distribution of payroll warrants should be performed by an individual independent of other payroll duties.

June 30, 2004

Finding Related to Statutory Requirements and Other Findings:

- (1) GAAP Package – To prepare timely financial statements for the State of Iowa, state agencies are required to submit GAAP packages by September 1 of each year. The GAAP packages include information which is not available on the state's financial accounting system. The following were noted during testing of the Legislative Services Agency's GAAP package:

- Capital assets and accumulated depreciation were overstated \$781,034 and \$128,129, respectively. The misstatements were due to errors in the recording of assets acquired under a capital lease agreement.
- The change fund and inventory for the Legislative Information Office were not reported.

Recommendation – The Legislative Services Agency should take steps to ensure information reported on the GAAP package is accurate and complete.

Response – The LSA Computer Support Division will ensure to attach a copy of the contract or purchase agreement with the associated amortization schedule showing principal and interest payments on all new purchased, leased or lease/purchased equipment when the first payment is due. If any associated equipment was retired at the time of this acquisition, it will need to be documented and sent to the finance office at that time also. These and any other necessary steps will be taken to ensure the accuracy of the GAAP reporting package as well as the capital asset listing.

Conclusion – Response accepted.

- (2) Committees and Commissions – The Code of Iowa establishes several commissions and committees which serve a variety of purposes. Specific sections in the Code of Iowa detail how many members are to be appointed and by whom, in addition to meeting and reporting requirements.

Section 2.35 of the Code of Iowa establishes a Communications Review Committee composed of three members of the Senate and three members of the House of Representatives. The required appointments to the Communications Review Committee by the Senate have not been made.

Section 602.1514 of the Code of Iowa establishes a Judicial Compensation Commission composed of eight members, four of whom shall be appointed by the Governor and four of whom shall be appointed by the Legislative Council. The required appointments to the Judicial Compensation Commission have not been made.

Recommendation – The Senate and the House of Representatives should evaluate the purpose of the Communications Review Committee and the Judicial Compensation Commission and determine whether continuation of each is warranted. If continuation is no longer warranted, the Senate and House of Representatives should seek to repeal these code sections. If continuation is warranted, the required appointments should be made to the Committee and Commission to comply with the Code of Iowa.

Report of Recommendations to the Iowa Legislature

June 30, 2004

House Response – A bill sponsored by Representative Murphy, House File 177, was introduced. The bill amends the manner for making appointments and would provide the Legislature with the opportunity to review the section during the next legislative session.

Senate Response – The Senate has appointed Senators Angelo, Courtney and Ward to the Communications Review Committee.

No appointments have been made to the Judicial Compensation Commission.

Conclusion – Response acknowledged.

Staff:

Questions or requests for further assistance should be directed to:

Cynthia L. Weber, CPA, Manager
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

Sarah D. Nelson, CPA, Staff Auditor
Karen J. Kibbe, Assistant Auditor